To: Agency CFO’s
From: Paul Louthian, Assistant Administrator, DFA-Office of Accounting
Date: March 13, 2003
Reference: Federal Grant Reimbursements

We are requesting that all agencies create transfer documents to move federal grant money within their agency or to send federal grant money to other agencies that will ultimately pay the final non-agency vendor payables. The current transaction process being used by many state agencies creates revenue 3 to 5 times for a single receipt of one federal fund’s amount. Generally, the first agency to receive federal funds should record the receipt as revenue. Each subsequent transfer of the funds should be recorded as a “transfer out of funds” and the receiving agency should record the transaction as a “transfer in of funds”. Currently agencies are incorrectly recording a receipt of the funds as revenue at each receiving agency and an expense by each transferring agency.

There are two circumstances that need to be addressed concerning duplication of revenue and expenses. The first involves intra-agency transactions and the second involves inter-agency transactions.

Intra-Agency:

Agency “A” Division “1” receives federal funds. The receipt is recorded as revenue by Agency “A” Division “1”. When Agency “A” Division “1” transfers the funds to Agency “A” Division “2”, the funds are receipted as revenue again. When Agency “A” Division “2” transfers the funds to Agency “A” Division “3”, the funds are receipted as revenue again.

Inter-Agency:

Agency “A” Division “1” receives federal funds. The receipt is recorded as revenue by Agency “A” Division “1”. When Agency “A” Division “1” transfers the funds to Agency “B”, the funds are receipted as revenue again. When Agency “B” transfers the funds to Agency “C”, the funds are receipted as revenue again.

When a review of these transactions in either scenario is made at the state level as a whole, the first receipt (example $100.00) has now been recorded as revenue 3 times ($300.00) and, in most instances, expensed 3 times ($300.00) all for the same $100.00 cash to the State.

In order to prevent duplicating revenues and expenses we are providing the following processes. The first process is for Intra-Agency transactions. The second process is for Inter-Agency transactions.
Process #1 – Intra-agency:

When Agency “A” Division “1” receives the grant money from the federal government, they will record a debit to cash and a credit to revenue through the cash receipt process.

<table>
<thead>
<tr>
<th>DB</th>
<th>CR</th>
<th>Description</th>
<th>GL Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>1100001002</td>
<td>4050004000</td>
<td>Treasury Incoming, Federal Grants Reimbursement</td>
<td>Receiving Treasury Fund</td>
</tr>
</tbody>
</table>

When Agency “A” Division “1” transfers the money to Agency “A” Division “2”, they will create a transfer document. This document must be created and parked with document type ZL. The document number must be e-mailed to the Office of Accounting at DFA.OAFunds@dfa.arkansas.gov for review and posting. It will be a four-legged entry:

<table>
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<th>CR</th>
<th>Description</th>
<th>GL Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>1100001002</td>
<td>6060002000</td>
<td>Treasury Incoming, Intra-agency Transfers-In</td>
<td>Receiving Treasury Fund</td>
</tr>
<tr>
<td>6061002000</td>
<td>1100001001</td>
<td>Intra-agency Transfers-Out, Treasury Outgoing</td>
<td>Sending Treasury Fund</td>
</tr>
</tbody>
</table>

The money is transferred to the correct fund without creating an expense or recording revenue a second time.

When Agency “A” Division “2” transfers the money to Agency “A” Division “3”, the above process would be used again.

The money is transferred to the correct fund without creating an expense or recording revenue a third time.

When the accounts payable section of the Agency “A” Division “3” pays the vendor/employee for the expense, they will create a warrant through the accounts payable or payroll process.

<table>
<thead>
<tr>
<th>DB</th>
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<th>Description</th>
<th>GL Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>5xxxxxxxxx</td>
<td>1100001001</td>
<td>Expense G/L Code, Treasury Outgoing</td>
<td>Sending Treasury Fund</td>
</tr>
</tbody>
</table>

This will result in the expense being recorded once on AASIS.

If you choose to operate out of your commercial bank account, you must continue to process a warrant to get the federal monies from your Treasury fund to your commercial bank account. This will create an expense to the Treasury fund and an “intra-agency transfer in” will be recorded in the commercial bank account. Since all bank activity must be recorded in AASIS per the February 24, 2003 letter, the recording of this movement of monies will result in duplication of expense, as illustrated below.

To create a warrant to reimburse the cash fund, the following entries are completed through the accounts payable process for Agency “A” Division “2”:

<table>
<thead>
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<th>Description</th>
<th>GL Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>5xxxxxxxxx</td>
<td>1100001001</td>
<td>Expense G/L Code, Treasury Outgoing</td>
<td>Sending Treasury Fund</td>
</tr>
</tbody>
</table>
To record the deposit of funds into the cash fund, the following entries are completed through the cash receipt process.

DB  1100002000  Non-AASIS House Bank  Receiving Cash Fund  
CR  6060002000  Intra-agency Transfers-In  Receiving Cash Fund

When the cash fund pays the vendor/employee for the expense, a check will be recorded through the accounts payable process.

DB  5xxxxxxxx  Expense G/L Code  Sending Cash Fund  
CR  1100002000  Non-AASIS House Bank  Sending Cash Fund

This records expense a second time.

A subsequent journal entry from Agency “A” Division 2 must be recorded to reduce the expense to the Treasury fund. The entry should be:

DB  6061002000  Intra-agency Transfers-Out  Sending Treasury Fund  
CR  5xxxxxxxx  Non-Budget Relevant G/L Code  Sending Treasury Fund

**Process #2 – Inter-agency:**

When Agency “A” receives the grant money from the federal government, they will record a debit to cash and a credit to revenue through the cash receipt process.

DB  1100001002  Treasury Incoming  Receiving Treasury Fund  
CR  4050004000  Federal Grants Reimbursement  Receiving Treasury Fund

When Agency “A” transfers the money to Agency “B” between Treasury funds, they will create a transfer document. This document must be created and parked with document type ZL. The document number must be e-mailed to DFA.OAFunds@dfa.arkansas.gov at the Office of Accounting for review and posting. It will be a four-legged entry:

DB  1100001002  Treasury Incoming  Receiving Treasury Fund  
CR  6060003000  Interagency Transfers In  Receiving Treasury Fund  
DB  6061003000  Interagency Transfers Out  Sending Treasury Fund  
CR  1100001001  Treasury Outgoing  Sending Treasury Fund

The money is transferred to the correct fund without creating an expense and recording revenue a second time.

When Agency “B” transfers the money to Agency “C”, the above process would be used if the money gets transferred between Treasury funds.
If at any point the money transferred from Agency “A” to Agency “B” or Agency “B” to Agency “C” involves the issuance of a warrant from a Treasury fund that is subsequently deposited into a commercial bank account, the following process must be used.

When Agency “A” transfers the monies to Agency “B”, a warrant will be created.

- **DB**: 5xxxxxxxxx Expense G/L Code Sending Treasury Fund
- **CR**: 1100001001 Treasury Outgoing Sending Treasury Fund

A subsequent journal entry from Agency “A” must be recorded to reduce the expense to the Treasury fund. The entry should be:

- **CR**: 5xxxxxxxxx Non-Budget Relevant G/L Code Sending Treasury Fund
- **DB**: 6061003000 Inter-agency Transfers Out Sending Treasury Fund

Agency “B” will deposit the money as follows:

- **DB**: 1100002000 Non-AASIS House Bank Receiving Cash Fund
- **CR**: 6060003000 Inter-agency Transfers In Receiving Cash Fund

When the cash fund pays the vendor/employee for the expense, a check will be recorded through the accounts payable process:

- **DB**: 5xxxxxxxxx Expense G/L Code Sending Cash Fund
- **CR**: 1100002000 Non-AASIS House Bank Sending Cash Fund